

## Budget Issues Summary

**FY 2004:** The Legislature made its final adjustments to the current fiscal year based on a 4.4% revenue estimate which was augmented by \$50.0 million in one-time federal funds and a \$30.0 million Medicaid match rate reduction for the state. Overall, the General Fund budget for FY 2004, after some mid-year adjustments for supplemental appropriations and budget rescissions (reductions), totaled \$1,991,794,300 which is a 2.2% increase over the previous year appropriation. The key overriding factor in the Legislature's approach to the budget was to maximize the ending balance to carry over into FY 2005, and ultimately, carry over a large ending balance into FY 2006 to help off-set the impacts of the sunset of the temporary one cent sales tax increase authorized last year. Toward that end the Legislature approved a spending plan which will leave an estimated year end balance of \$72.5 million.

**FY 2005:** The FY 2005 General Fund budget is based on a revenue estimate of 5.4%, which is the median estimate of the Economic Outlook and Revenue Assessment Committee. This is also the second and final year of the temporary one cent sales tax increase. With that sunset in mind, which will reduce General Fund revenues about \$180 million in FY 2006, the Legislature set about putting a spending plan in place which would leave the largest ending balance possible to help off-set that impact.

The Governor's budget recommendation, for the most part, provided that spending blueprint and the Legislature followed that plan with some exceptions for Public Schools, Catastrophic Health and Medicaid. In the end a budget was approved which included some basic "maintenance level" costs for personnel cost roll-ups (health insurance and retirement), medical inflation for selected health care institutions, a 2% Change in Employee Compensation package with a contingency appropriation for another temporary 1% increase (see CEC explanation), and some formula increases for Public Schools, along with some salary and operational improvements.

Overall the General Fund appropriation increased 4.5% over the final FY 2004 appropriation, spending an additional \$90.3 million in General Funds. It is noteworthy that over half of the new spending, \$46.7 million, went to the Department of Health and Welfare which, in total, represents only 19.6% of the total General Fund. This spending plan will leave an estimated ending balance of \$49.7 million. The following write-ups summarize key areas of the state budget.

**Department of Health and Welfare:** The General Fund appropriation for the Department of Health and Welfare increased from \$375.8 million in fiscal year 2004 to \$407.6 million in fiscal year 2005. This level of funding represents an increase of \$31.8 million, or 8.4%, over the department's fiscal year 2004 original appropriation.

In addition, full-time equivalent positions increased by 3.1%, from 2,805 as authorized by the Legislature in fiscal year 2004, to 2,893. This represents an increase of 88 positions. Of that number, about 78 were authorized by the Governor during the current fiscal year to improve upon reported service levels and to enhance customer services to the department's clients. The cost of adding these approved increases was covered by federal grants, as well as, salary savings generated through vacancies. The remaining number was added as a result of expanding Medicaid to include a new CHIP Plan B and Access Card program that is scheduled to be implemented in July 2004.

Likewise, employment services were transferred from the Department of Health and Welfare to Vocational Rehabilitation for fiscal year 2005. Employment services are comprised of work services and community supported employment. It is a program designed to provide remunerative work and support for adults with developmental disabilities and mental illness who lack the skills and experience to obtain and maintain employment in the competitive labor market.

Additionally, funding was provided to purchase more contracted services provided by the private sector in order to bring the Infant and Toddler program back into compliance with federal law. The Department is charged with identifying infants and toddlers whom may be eligible for services under the program. Over the past few years, the population growth in the state, and increasing awareness about brain development and the critical importance of the first three years of life -- has resulted in increased referrals

of children who would benefit from early intervention services. The population served has increased by almost 46% over the past five years.

Another area tackled by the Legislature this year, related to Foster Care reimbursement.

Idaho has continually struggled with recruitment and retention issues because of inadequate reimbursement rates for foster parents. As a result, Health and Welfare received a five percent increase in reimbursement rates to bring those rates closer to the regional average.

In Medicaid, the fiscal year 2004 appropriation was reduced by a total of \$57.5 million. Of this amount, \$15.0 million was from the General Fund. This one-time savings was possible due to an unanticipated increase in federal matching funds for the last quarter of fiscal year 2003 and for four quarters of fiscal year 2004.

For fiscal year 2005, Medicaid received additional staff and additional resources from the Idaho Insurance Premium Tax, along with associated federal match, to implement a new CHIP Plan B and Access Card Program. In addition, resources were also provided to modify the Department's automated systems for accommodating future cost sharing and co-payments for certain Medicaid clients. Other adjustments to the Medicaid budget assumed cost savings or cost avoidance as a result of implementing a Managed Care program, a Disease Management program, and a preferred drug list known as the First Choice Drug program that had just been initiated.

Finally, eligibility staff within the Division of Welfare was increased by five in order to deal with significant increases in caseload growth over the past few years, as well as, to deal with anticipated increases in workload as a result of the Children's Health Insurance Program expansion. This was fifteen less than what the Department estimated their requirements to be.

**Public Schools:** The General Fund appropriation for public schools increased by 2.3% for FY 2005, from \$943 million to \$964.7 million. The key legislation in Public Schools centered on **charter schools' governance and finance**. SB 1444 tightened ethics standards for charter schools, limited to six the number of new charters that may be annually authorized in Idaho, and created the Public Charter School Commission as an alternative chartering entity for those charter petitioners who are unable to satisfactorily resolve issues with the local school board within 30 days. SB 1443 made changes to the way public virtual schools are funded. For FY 2004 and FY 2005, such schools will receive no higher than the median formula divisor for average daily attendance. For FY 2006 and FY 2007, no higher than the 2<sup>nd</sup> highest divisor is used, and such schools can become eligible to receive state pupil transportation funds for 85% of the cost of transporting the education program to children, subject to the same statewide average cost per student cap that all school districts are subject to in this area. For FY 2008 and after, such schools can continue receiving transportation funds, but will receive their actual ADA divisor from the table of divisors in Section 33-1002, Idaho Code.

In terms of the five divisions in the Public Schools budget, the following highlights summarize the key issues provided in the appropriation bills:

- Administrators: General Fund increase of 0.7%. Funded statutory increases for enrollment growth and PERSI rate increase.
- Teachers: General Fund increase of 3.1%. Fully-funded a 10% increase in the statewide minimum teacher salary, from \$25,000 to \$27,500. The previous \$25,000 minimum mandate was not fully funded by the state. Funded an increase in the experience/education index for instructional staff to account for teachers earning additional education credits in FY 2004 and FY 2005. Once these index funds reach school districts, they are allocated to teachers as the school district sees fit. Funded statutory increases for enrollment growth and PERSI rate increase.
- Operations: General Fund increase of 0.5%. Provided the full amount of Technology money requested by the Superintendent of Public Instruction (\$8.4 million). Funded a 1% base salary increase for classified staff. Maintained the current level of total discretionary funding, at \$24,450 per classroom. Funded statutory increases for enrollment growth and PERSI rate increase.

- **Children's Programs:** General Fund increase of 6.6%. Ratifies recent decisions of the State Board of Education to direct that the Board utilize its appropriation of federal funds to develop a computer-based program of tutoring and assistance for students failing to achieve proficiency in at least one area of the Idaho Standards Achievement Test (ISAT).
- **Facilities:** Funded entirely by State Lottery proceeds. Provides funding for Bond Levy Equalization, the final payment (to the Whitepine School Districts) under the School Safety and Health Revolving Loan and Grant Fund program, and general facilities assistance to local school districts. The amount of general facilities funds provided is \$8,922,500, or a 5.9% increase over the \$8,425,000 provided in FY 2004.

**College and Universities:** The FY 2005 appropriation for the general education programs at the four-year higher educational institutions (Boise State University, Idaho State University, the University of Idaho and Lewis-Clark State College) was contained in HB 768 and totaled \$341,294,500. Of that amount, \$223 million or 65% comes from the General Fund, \$108 million or 32% from student fees with the remaining \$10 million or 3% being endowment funds.

The budget reflects the Governor's Recommendation, providing a 2.5% General Fund increase over FY 2004, an 8.0% dedicated fund increase and a 4.3% increase in all funds. The Governor's budget did not recommend funding the requested fund shift to off-set student fee increases, which was a break from precedent. Unlike the Governor's Recommendation, however, JFAC set the budget as a lump sum appropriation, containing only the bottom line increases of \$5,366,200 in General Funds and \$8,755,900 in dedicated funds with no additional expenditure detail. The Legislature's intent was to provide maximum flexibility to the State Board of Education and the four institutions to use the new money for their most pressing issues such as the 2% pay raise and increased state employee health insurance costs that were funded in all other appropriations.

The \$8,755,900, increase in dedicated funds is the result of student fee increases. The State Board of Education took a new approach to fee setting and approved increases to student fees in January. In prior years, the Board set fees in April, in part to allow them to respond to legislative appropriations. The State Board approved an average student fee increase of 8.2% for the coming academic year. The new fees are projected to generate an additional \$10.7 million. That amount has been included in this appropriation. However, due to poor market performance, the five endowment funds that benefit higher education have lost 16% of their value over the past year. In response the Land Board voted to distribute \$1.9 million less to higher education for the coming fiscal year. That means that instead of the \$12 million they received this year, they will only be getting \$10 million next year. The request to have those endowment losses covered with new General Fund money was not recommended by the Governor nor funded by the Legislature.

**Office of the State Board of Education:**

HB 801 contained the FY 2005 appropriation for the Office of the State Board of Education and totaled \$9,460,800. It results in a 19.1% or \$970,400 General Fund decrease from FY 2004, a large federal fund increase due to new NCLB (No Child Left Behind) money, which results in an overall increase of 77% or \$4,114,200. The large General Fund decrease is because of a one-time General Fund rescission of \$1,500,000 for FY 2004. Those General Fund moneys have been replaced with federal funds to cover a large portion of the State Board of Education's contract for Achievement Standards assessment. Likewise, the FY 2005 appropriation begins with a \$1,000,000 General Fund Base Reduction. Of that amount, \$611,700 is one-time and \$388,300 is ongoing. Again, these are savings due to federal funds replacing a portion of the General Fund money appropriated for the Achievement Standards assessment contract.

JFAC provided \$5,114,800 in federal fund spending authority for an enhancement related to the State Board of Education assuming State Education Agency (SEA) responsibilities from the State Department of Education. Most of that money is for state assessments as required by NCLB with portions also going for teacher quality and language acquisition activities in the public schools. Three new full-time equivalent positions will help the Board office with the additional SEA workload.

Intent language is also included to allow the Board office to share some narrowly defined administrative resources with the Division of Professional-Technical Education and the Division of Vocational Rehabilitation provided that doing so does not impair the agencies' ability to fulfill their individual missions.

**Department of Correction:** At the beginning of the legislative session JFAC acted upon the Governor's Recommendation and rescinded \$1 million of a General Fund contingency appropriation from the Department back to the state treasury. This action was taken as a result of the inmate population growing at a slower rate than what was funded in the FY 2004 Original Appropriation. The contingency had been provided in the case that the growth was in excess of that forecast.

The General Fund appropriation for the Department of Correction reflects a 1.4% increase from FY 2004 to FY 2005, and a 1.6% increase in total funds. New General Fund dollars were appropriated for contractual increases to the private providers of medical care and the operator of the Idaho Correctional Center. Contract inflation of \$346,600 will be paid to PHS for medical care, and \$474,700 to Correctional Corporation of America for per diem increases at the privately-operated prison. The Department did receive \$291,300 in one-time funds to hire temporary correctional officers to manually unlock doors at the Idaho Maximum Security Institution, and the Idaho Correctional Institution at Orofino while malfunctioning electronic locking systems are replaced. In addition to the Governor's Recommendation, the Legislature was able to accommodate the anticipated growth in probation and parole by appropriating Parole Supervision Funds to add eight probation & parole officers throughout the fiscal year.

- Inmate Growth – The *revised* forecast for prison growth in FY 2004 was 247, and by the end of March was projected to be at 6,005. By the third week of March it is now close to that projection at 5,988. When the FY 2004 Original Appropriation was set during the 2003 session, the forecasted annual growth was 488, and the Legislature responded by appropriating funding for community treatment for 400 offenders hoping that the growth could be mitigated. Growth is now matching the lowered revised forecast.
- Capacity/County Jail Legislative Intent – In light of the Governor's Recommendation not to open 175 new prison beds due to be completed in FY 2005, intent language was included in the appropriation bill that requested the Department of Correction to maximize the use of funded state beds, followed by county jail space, and then if necessary by permission of the Governor, to open new unfunded state beds before pursuing out-of-state beds for offenders.

**Endowment Funds:** Although the focus of the budget committee continued to be on the State General Fund, dedicated and federal funds played an important role in the overall state budget. The endowment funds are dedicated funds generated from the investment of revenues earned from lands granted by the federal government upon statehood. Changes to the State Constitution allowed for the investment of these revenues in the stock market beginning in 2000. Unfortunately, the investments suffered severe losses which resulted in the necessity to reduce distributions to the Public Schools and other "pooled" beneficiaries.

For fiscal year 2005, the Public School endowment appropriation decreased 39 percent from \$37.8 million to \$23 million or by \$14.8 million. About 20% of the reduction was due to the declining value of the permanent funds three-year moving average. The other 80% of the reduction was due to the Land Board's decision to change the distribution policy from 7.5% of the three-year moving average to 5% of the three-year moving average.

The other "pooled" programs impacted by declining endowment revenues included the Agricultural College with a 21% decrease, the Charitable Institutions 18% decrease, Idaho State University College of Education and Lewis-Clark State College 14% decrease, State Penitentiary 7% decrease, University of Idaho School of Science 17% decrease, State Hospital South 10% decrease, and the University of Idaho endowment with a 15% decrease. About 50% of the reduction for these pooled beneficiaries was due to the declining value of the permanent funds three-year moving average. The other 50% of the reduction was due to the Land Board's decision to change the distribution policy from 7.5% of the three-year moving average to 7% of the three year moving average for pooled beneficiaries.

Overall the fiscal year 2005 budget set by JFAC included a 32% or \$17.4 million decrease in endowment appropriations compared to that for the current fiscal year.

**Change in Employee Compensation:** HCR 47 states that the policy of the state of Idaho is to provide a total compensation system for state employees, which includes paying competitive job market average salaries and rewarding performance with a merit based compensation philosophy. The resolution recommends funding benefit cost increases at the level recommended by the Governor and a permanent 2% merit based salary increase. Funding an additional temporary 1% salary increase would be contingent upon revenues exceeding the current year estimate. Finally, HCR 47 provides agencies guidance on the use of one-time and ongoing salary savings to address salary increases, and directs the Division of Human Resources and the Division of Financial Management to ensure that agency and institution compensation policies are managed consistent with the policies stated in the resolution.

The General Fund fiscal impact of HCR 47 is as follows:

- (1) Benefit cost increases: \$10,923,900.
- (2) 2% permanent salary increase: \$10,002,100
- (3) 1% temporary salary increase (contingent upon receipt of revenues exceeding estimates): \$5,001,000

**Borah Post Office:** The Department of Administration's FY 2005 budget includes \$650,000 in spending authority for operating costs for the Borah Post Office. The Legislature, through House Concurrent Resolution No. 44, authorized the Department to acquire the Borah Post Office from the federal government for the State of Idaho. The state acquired the facility for a nominal fee and will use the building to house certain state agencies which currently are renting space elsewhere in Ada County.

**Permanent Building Fund Projects:** For FY 2005, the Permanent Building Fund will be used primarily to address building maintenance projects. Of the \$21,337,700 appropriated for Permanent Building Fund Projects, \$16,037,700 or 75.2 percent was allocated for maintenance projects. In addition to the maintenance projects, there were two other projects authorized:

- \$4.6 million was appropriated for the State Historical Society's Idaho History Center, Phase 2. This had been the number one priority for the Historical Society for a number of years. Furthermore, the projects was approved by the Legislature in FY 2001 and then cancelled in FY 2003 as part of the Legislature's efforts to balance the state's General Fund budget.
- \$700,000 was appropriated for the purchase of the Department of Labor's (DOL) portion of the Idaho Falls State Office Building, currently occupied by DOL's Job Service Office. Federal rules permit DOL to use the proceeds from this sale to reinvest in another facility in the same region of the state, as long as the new structure is used by the state's Employment Services Program. The Department of Labor will use these proceeds along with other department funds for a new and larger Job Service Office in the Idaho Falls area.

**Idaho Millennium Fund:** For FY 2005, the appropriation from the Millennium Fund is \$1,939,700. The fund will receive the annual payment from the tobacco companies on April 15, which is estimated to be \$22.4 million.

**Water Agreement:** HB 843 funded the legislature's commitment to a stipulated water agreement entitled "The Eastern Snake Plain Aquifer Mitigation, Recovery and Restoration Agreement for 2004". That commitment was to develop a long-term solution to address the declines in spring flows discharging from the Eastern Snake Plain Aquifer. The bill came after a series of negotiations that halted the shutoff of more than a thousand wells that draw water from the aquifer. The bill is composed of two parts. The first part addresses fiscal year 2004 and includes one additional position for the Department of Commerce and one additional position for the Department of Water Resources for the remaining three months of the current fiscal year. The position in the Department of Commerce will assist water users affected by the

decline in flows from springs below the Eastern Snake River Plain. The position in the Department of Water Resources will assist water masters. This position will also assist with the identification of alternatives to improve the management and use of available spring flows. The bill includes the transfer of \$520,000 from the General Fund to the Water Management Fund for the Water Board to rent 40,000 acre feet of water on a one-time basis. The fiscal year 2004 impact is \$544,500 all from the General Fund.

The second part of the bill provides full-year funding for the same one position in the Department of Commerce and the same one position in the Department of Water Resources totaling \$139,900. Then it appropriates \$500,000 to the Department of Commerce for grants to affected spring users to implement infrastructure improvements. Next, the bill includes \$500,000 to be transferred to the Revolving Development Fund for the Water Board to make loans to the North Snake and Magic Valley ground water districts. These loans are to be used to pay for out of priority diversions. Finally, the bill includes \$300,000 in dedicated spending authority to develop and implement a long-term aquifer management plan. The source of the dedicated funds is from the cancellation of encumbrances made on legislative appropriations authorized for aquifer recharge in 1995. The FY 2005 impact is \$1,139,900 from the General Fund and \$300,000 from the Miscellaneous Revenue Fund for a total of \$1,439,900.

The combined FY 2004 and FY 2005 impact is \$1,684,400 on the General Fund and \$300,000 on dedicated funds for a total of \$1,984,400. All of the funding in the bill is one-time except the \$139,900 for the two ongoing positions.